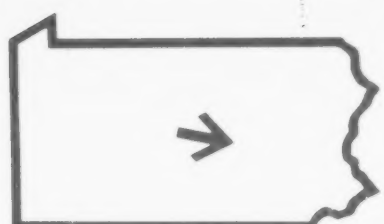


12/30/81 U 4110-1A



## Not Much Change

Economic conditions in Pennsylvania remained about the same, overall, in October as in September, except that more weakness developed among manufacturing industries located in the State, and one or two metropolitan areas became hot spots.

About 52,000 more people worked in October than in September — and that is just about an ordinary seasonal increase. All told, the employed numbered 5,005,000, a very high number compared with past history.

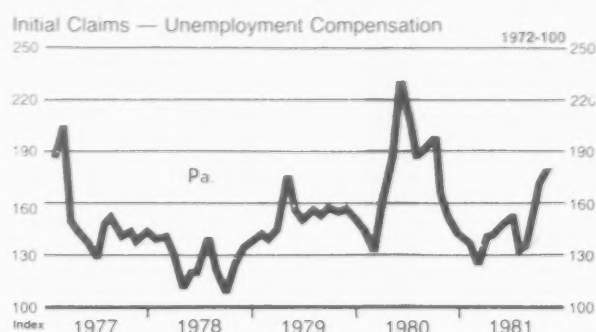
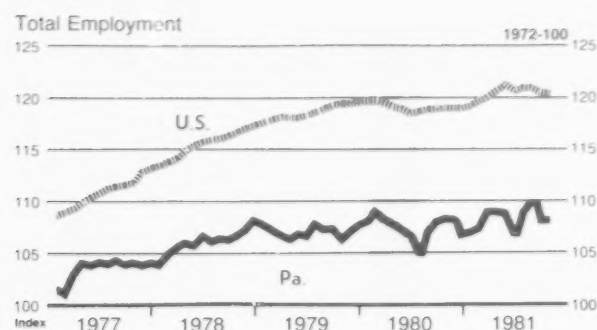
Industries other than manufacturing added more workers in October than is their custom. As a result, the job level for these nonmanufacturing industries as a group moved up to about the same level maintained during the summer months. It had dropped below that in September, thanks in part to cutbacks in federally supported job programs and some teachers' strikes.

It wasn't only strike settlements that raised the level. There was a pretty good gain in retail trade jobs, although their level is still comparatively low. Service industries had more than a million workers for the first time in history. They added jobs at a time when their customary seasonal pattern calls for a cutback, and so the adjusted index jumped to a record high. There were even some extra-seasonal gains in the hard-pressed construction industry. Other groups had predominantly seasonal shifts over the month.

There were about 78,000 more people in Pennsylvania's labor force in October than in September. Since only 52,000 found work, there was an increase in unemployment that was not a customary seasonal development. The unemployment rate is currently running around 8.5 percent. As is to be expected in October, layoffs from industry increased in number. While much of the increase in new claims for unemployment benefits (by which layoffs are measured) was seasonal, some was not. This is the third month in which a certain amount of unseasonal increase has occurred, suggesting that generally slackened economic conditions are responsible. Still, the claims level has not risen as high as it did during last year's brief recession.

Except for residential building, awards of contracts for construction held at a pretty good level in October. That level was sustained mostly, however, by contracts let for a few huge sewer and bridge projects in Philadelphia and Pittsburgh. Commercial construction awards were not bad, but contracts for residential construction fell almost to the 1980 recession low point.

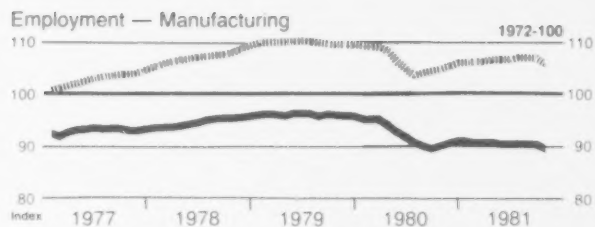
It is in factory activity that weakness in economic conditions shows most clearly at present. Factory manhours worked weekly dropped just a shade below the 1980 recession low point. Total factory payrolls worked per week are dropping, which tends to diminish purchasing power.



## PENNSYLVANIA BUSINESS SURVEY

The average factory workweek is relatively short, an element in payrolls. And in October fewer factory jobs were reported than for any month on record for more than twenty years. Some 21,500 jobs were lost over the previous thirty days, to drop the total below 1.3 million for the first time. Throughout the second and third quarters, factory job shifts from month to month were predominantly seasonal; the October drop was, however, more than seasonal, and reflects slackness in demand for both durable and soft goods.

The steel industry continues to decline. In October Pennsylvania mills made the smallest tonnage since August 1980. Daily average production amounted to no more than 51,900 tons and was indexed at one of the lowest points on record. Production this year is running at an annual rate of 25.4 million tons — not quite so bad as last year when it was 23 million; but, the way things are going, total tonnage for 1981 could fall below 25 million. Early weekly reports for November do not suggest solid improvement. Some companies in the industry nationwide are attempting to spread the impact of poor business by laying off a larger number of workers for shorter periods rather than a smaller number for longer periods. Others are shutting down certain operations completely. One steel company (not in Pennsylvania) has filed for bankruptcy.



| Economic Activity<br>in Pennsylvania                                         | 1981   |       | 1980<br>Oct.                                                 | Seasonally Adjusted Indexes<br>(1972 = 100.) |               |       |
|------------------------------------------------------------------------------|--------|-------|--------------------------------------------------------------|----------------------------------------------|---------------|-------|
|                                                                              | Sept.  | Oct.  |                                                              | 1980<br>Oct.                                 | 1981<br>Sept. | Oct.  |
| <b>Pennsylvania Industries:</b>                                              |        |       |                                                              |                                              |               |       |
| Nonagricultural industries,<br>total no. of wage & salaried jobs in (thous.) | 4,681* | 4,705 | 4,773                                                        | 107.4                                        | 105.2*        | 105.5 |
| Nonmanufacturing:                                                            |        |       |                                                              |                                              |               |       |
| No. of wage & salaried jobs in (thous.)                                      | 3,349* | 3,396 | 3,456                                                        | 116.0                                        | 112.8         | 114.0 |
| Manufacturing:                                                               |        |       |                                                              |                                              |               |       |
| No. of wage & salaried jobs in (thous.)                                      | 1,307* | 1,286 | 1,309                                                        | 90.3                                         | 90.1*         | 88.8  |
| Hrs. worked by prod. workers in, ave. wkly.                                  | 39.2*  | 39.2  | 38.8                                                         | 97.4                                         | 97.9*         | 98.4  |
| Total factory man-hours worked (mil. wkly.)                                  | 36.4   | 35.6  | 36.2                                                         | 84.6                                         | 84.8*         | 83.3  |
| Total factory payrolls (mil. \$ wkly.)                                       | 308.4* | 300.6 | 281.8                                                        | 170.1                                        | 184.7*        | 181.4 |
| Steel production (thous. tons)                                               | 1,889  | 1,609 | 2,026                                                        | 81                                           | 78            | 64    |
| Industrial electric power sales (mil. kwh)                                   | 3,908  | 3,840 | 3,805                                                        | 109                                          | 109           | 111   |
| Mining:                                                                      |        |       |                                                              |                                              |               |       |
| Anthracite (thous. net tons)                                                 | 408    | 562   | 567                                                          | 82                                           | 70            | 81    |
| Bituminous coal (thous. net tons)                                            | 8,080  | n.a.  | 8,106                                                        | 111                                          | 115           | n.a.  |
| Construction contracts awarded, value (\$ mils.)                             |        |       |                                                              |                                              |               |       |
| Total                                                                        | 381.0  | 456.1 | 502.9                                                        | 170                                          | 134           | 156   |
| Residential building                                                         | 150.3  | 136.5 | 189.0                                                        | 159                                          | 122           | 111   |
| Other building                                                               | 160.0  | 149.1 | 183.5                                                        | 162                                          | 161           | 136   |
| Nonbuilding (utilities and public works)                                     | 70.7   | 170.6 | 130.3                                                        | 195                                          | 113           | 243   |
| <b>Employment of Pa. Residents:</b>                                          |        |       |                                                              |                                              |               |       |
| Employed, total number (thous.)                                              | 4,953  | 5,005 | 5,031                                                        | 108.3                                        | 107.8         | 107.8 |
| Unemployed:                                                                  |        |       |                                                              |                                              |               |       |
| Total number (thous.)                                                        | 441    | 467   | 416                                                          | 160.0                                        | 166.4         | 179.1 |
| Rate (percentage of labor force)                                             | 8.2    | 8.5   | 7.6                                                          | —                                            | —             | —     |
| Rate, seasonally adjusted                                                    | 8.2    | 8.7   | 7.8                                                          | —                                            | —             | —     |
| Civilian labor force, number in (thous.)                                     | 5,394  | 5,472 | 5,447                                                        | 111.1                                        | 111.0         | 111.7 |
| <b>General Business Activity:</b>                                            |        |       | <b>Notes:</b>                                                |                                              |               |       |
| Bank debits, percentage change in dollar volume of:                          |        |       | * = Figure revised    n.a. = Data not available              |                                              |               |       |
| From previous month                                                          |        |       | -- 4.5                                                       |                                              |               |       |
| From same month, previous year                                               |        |       | + 23.1                                                       |                                              |               |       |
|                                                                              |        |       | SOURCES AND DEFINITIONS OF DATA<br>ARE AVAILABLE ON REQUEST. |                                              |               |       |

**Notes:**

\* = Figure revised n.a. = Data not available

SOURCES AND DEFINITIONS OF DATA  
ARE AVAILABLE ON REQUEST.

Data on employment have been revised to first quarter 1980 benchmarks.



Present conditions have dealt certain Pennsylvania areas relatively harsh blows. Johnstown in particular feels the slackness in steel demand. Williamsport is experiencing weakness in both its factory and other industries. Altoona's factories have held their jobs, but other industries have dropped their job level, as a group, to its lowest point in several years. All three of these areas are rather small, and are heavily dependent directly or indirectly on capital spending (for new plant and equipment). They do not have enough diversification to offset bad times in certain industries. Other areas either do not show visible signs of sag at this time, or the signs are slight.

Pennsylvania's performance in October did not differ much from that of the Nation. The number of persons at work in the United States did not change from September to October. The level of factory jobs dropped. The job level rose in retail trade and services. Factory activity slackened. The labor force continued to enlarge in number, and unemployment got worse, since employment did not expand significantly.

If very little change was good news, there were signs that when the November figures become available they won't be so good. Inventory stocks are rising — and not just in interest-sensitive industries; so production can be expected to drop further. Personal income was bolstered in October by Federal pay raises. That won't be repeated. Layoffs seem to be increasing. There won't be time to evaluate holiday shopping or to see much benefit from lower interest rates or the October tax cut. So conditions can be expected to weaken in both Nation and State for the near future; and we won't know until midwinter whether or not there was a lift at year-end.

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Eugene J. Kelley, Dean of the College  
Paul H. Rigby, Assistant Dean and Director of the Center for Research  
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|            | U.S. Indexes<br>(1967 = 100)                                |                                                         |
|------------|-------------------------------------------------------------|---------------------------------------------------------|
|            | Consumers' prices, all items<br>Urban index<br>(unadjusted) | Industrial Production<br>Total<br>(seasonally adjusted) |
| Sept. 1980 | 251.7                                                       | 143.7                                                   |
| Oct.       | 253.9                                                       | 146.5                                                   |
| Nov.       | 256.4                                                       | 149.2                                                   |
| Dec.       | 258.4                                                       | 150.9                                                   |
| Jan. 1981  | 260.5                                                       | 151.4                                                   |
| Feb.       | 263.2                                                       | 151.8                                                   |
| March      | 265.1                                                       | 152.1                                                   |
| April      | 266.8                                                       | 151.9                                                   |
| May        | 269.0                                                       | 152.7                                                   |
| June       | 271.3                                                       | 152.9                                                   |
| July       | 274.4                                                       | 153.8                                                   |
| Aug.       | 276.5                                                       | 153.3                                                   |
| Sept.      | 279.3                                                       | 151.8 <sup>1</sup>                                      |
| Oct.       | 279.9                                                       | 149.5                                                   |

Sources: Consumer prices, U.S. Dept. of Labor; industrial production, Federal Reserve Board.

### An Idea Worth Reconsidering?

#### 7% Unemployment May Be "Full Employment"

Nearly two years ago, Professor Robert E. Hall of Stanford University was contending that the United States has been trying to sustain too low a level of unemployment, and so was helping to generate inflation. As described in an article by Leonard Silk at that time,<sup>1</sup> Professor Hall accepted the concept that every economy has a "natural" rate of unemployment, and that efforts to push or hold unemployment below that natural rate inevitably help to cause inflation. He defines the natural rate as the rate at which wage inflation is neither worsening nor improving. When unemployment drops below its natural rate, the rate of compensation to labor speeds up; when unemployment climbs above its natural rate, wage increases begin moderating.

Professor Hall presented to the National Bureau of Economic Research evidence that the natural rate for the United States is on the order of 6.8 percent. He had econometric evidence that the year-to-year rate of wage

<sup>1</sup> "Jobless Rate's Link to Inflation," by Leonard Silk, *The New York Times*, 4/4/80, p. D2.

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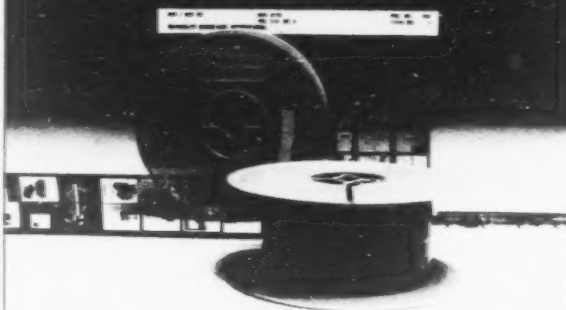
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inflation rises about one-half percentage point for every percentage point that the actual unemployment rate falls short of the natural rate. Hence the natural rate must equal the actual rate plus twice the annual increase in wage inflation (2 is the reciprocal of 1/2). During the 1970s wage inflation increased by an average of three-tenths of 1 percent a year. Therefore, Professor Hall concluded that the natural rate of unemployment had risen to 6.8 percent (6.2 percent plus 2 times 0.3). Conceivably the bottom of the range for the natural rate might be as little as 6 percent, because inflation caused by outside sources such as rising world oil and food prices might have fed back into wage rates. But Professor Hall thought that for the foreseeable future the country might have to adjust to a sustainable employment level that would yield an unemployment rate of 6.5 or 7 percent.

According to Mr. Silk, exceeding the natural rate would help to push down the overall rate of inflation in the near term; but what about the far term? "Mr. Hall's logic implies," he said, "that if the United States wants price stability, it must accept an unemployment rate of 6 to 7 percent for years." Reducing the natural rate of unemployment of the country in Professor Hall's experience is not very feasible; but Professor Martin Feldstein, president of NBER, was more optimistic that it could be reduced by improving education and training of young people.

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